

Message Text

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ACTION EB-08

INFO OCT-01 EA-10 ISO-00 CAB-02 CIAE-00 COME-00
DODE-00 DOTE-00 INR-10 NSAE-00 FAA-00 L-03 /034 W
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R 050703Z MAY 78

FM AMEMBASSY TAIPEI

TO SECSTATE WASHDC 7317

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E.O. 11652: N/A

TAGS : EAIR, TW

SUBJECT : GROUND HANDLING COMPANY

REF: STATE 108344

1. EMBASSY WILL DELIVER NOTE TO MINISTRY OF FOREIGN
AFFAIRS MAY 5.

2. PROPOSED GROUND HANDLING COMPANY PROBABLY WILL BE
OWNED 50/50 BY CHINESE CIVIL AERONAUTICS ADMINISTRATION
(CCAA) AND CHINA AIR LINES. IT WILL, IN OTHER WORDS,
BE GOVERNMENT CONTROLLED. CCAA CLAIMS CHIEF PURPOSE OF
MONOPOLY IS TO ASSURE HIGH QUALITY OF SERVICE, AND MAIN-
TAINS THAT RATES WILL BE REASONABLE; HOWEVER, IT ALSO
ADMITS THAT REVENUE-GENERATION IS A MAJOR CONSIDERATION.

3. CCAA HAS ANNOUNCED INTENDED OPENING DATE OF
JANUARY, 1979 FOR TAOYUAN AIRPORT. EMBASSY BELIEVES THAT,
BARRING TYPHOON DAMAGE OR UNANTICIPATED DELAYS IN ARRIVAL
OF EQUIPMENT, THIS DATE IS FIRM.

4. FLYING TIGER USES TAIWAN AIRPORT SERVICE CO., LTD.
(TASCO) FOR ALL NORMAL GROUND HANDLING, ALTHOUGH IT
PERFORMS OWN MAINTENANCE AND FLIGHT OPERATIONS AND HAS
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SOME GROUND HANDLING BACK-UP CAPABILITY FOR EMERGENCIES.
SPOKESMAN FOR FLYING TIGER INDICATES MAIN REASON FOR
OBJECTING TO MONOPOLY PROPOSAL IS NOT COST, BUT DESIRE TO
MAINTAIN MULTIPLE OPTIONS FOR FUTURE, IN CASE TASCO OR
COMPARABLE NEW SERVICE SHOULD DETERIORATE AND/OR FLYING
TIGER SHOULD WISH TO PROVIDE ITS OWN GROUND SERVICE.
(FYI: TASCO IS MIXED GOVERNMENT AND PRIVATELY-INVESTED

FIRM, WITH CHINA AIR LINES A MAJORITY STOCKHOLDER.)

5. FLYING TIGER WOULD NOT IMMEDIATELY BE SIGNIFICANTLY AFFECTED FINANCIALLY BY IMPLEMENTATION OF GROC DECISION, IF ITS ASSUMPTION, BASED ON PURPORTED CCAA ASSURANCES THAT GROUND SERVICE RATES AT TAOYUAN WOULD NOT BE MEANINGFULLY DIFFERENT FROM THOSE CURRENTLY CHARGED BY TASCO, IS VALID. NORTHWEST INDICATES THAT IT STANDS TO IMMEDIATELY LOSE A TOTAL OF ABOUT US DOLLARS 288,600, WHICH IS THE COST OF DISMANTLING ITS GROUND HANDLING OPERATION AT TAIPEI. THIS FIGURE INCLUDES SPECIAL FORCED RETIREMENT AND SEVERANCE PAY FOR PERSONNEL (U.S. DOLLARS 81,000), NON-REFUNDABLE CUSTOMS DUTY ON IMPORTED EQUIPMENT, (U.S. DOLLARS 142,000), AND TRANSPORTATION AND INSURANCE COSTS FOR RELOCATION OF EQUIPMENT (U.S. DOLLARS 64,000). CCAA DIRECTIVES INDICATE THAT NORTHWEST MUST FOOT ENTIRE COST OF DISMANTLING ITS TAIPEI GROUND HANDLING OPERATION. NORTHWEST'S GREATEST FINANCIAL CONCERN, HOWEVER, IS UNCONTROLLABLE CHARGES FOR MONOPOLY GROUND HANDLING SERVICE. BASING ITS COMPUTATIONS ON CURRENT SERVICE CHARGES OF TASCO, NORTHWEST PROJECTS INCREASE IN ANNUAL HANDLING SERVICE COSTS OF US DOLLARS 437,372 IN 1979. NORTHWEST ALSO ARGUES THAT WHEN IT RELIES ON OWN HANDLING SERVICE, COST PER AIRCRAFT DECREASES AS AIRCRAFT OPERATIONS INCREASE SINCE FIXED OPERATION COSTS ARE SPREAD OVER A GREATER NUMBER OF LIMITED OFFICIAL USE

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AIRCRAFT. IN CONTRAST, SINCE GROUND SERVICE COMPANIES CALCULATE CHARGES ON A PER AIRCRAFT BASIS, HANDLING COSTS CAN ONLY RISE AS AIRCRAFT OPERATIONS INCREASE. NORTHWEST MAKES ADDITIONAL POINT THAT LOCAL GROUND HANDLING CHARGES SHOULD BE BASED ON LOCAL COSTS, NOT ON COSTS IN SOME FOREIGN LOCATION, PLUS A REASONABLE RETURN ON INVESTMENT, BUT THAT TEMPTATION EXISTS FOR CHINESE GOVERNMENT TO USE GROUND HANDLING REVENUES TO QUICKLY RECOVER CAPITAL INVESTMENTS AT NEW TAOYUAN AIRPORT. SULLIVAN

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